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FOREST INDUSTRIES

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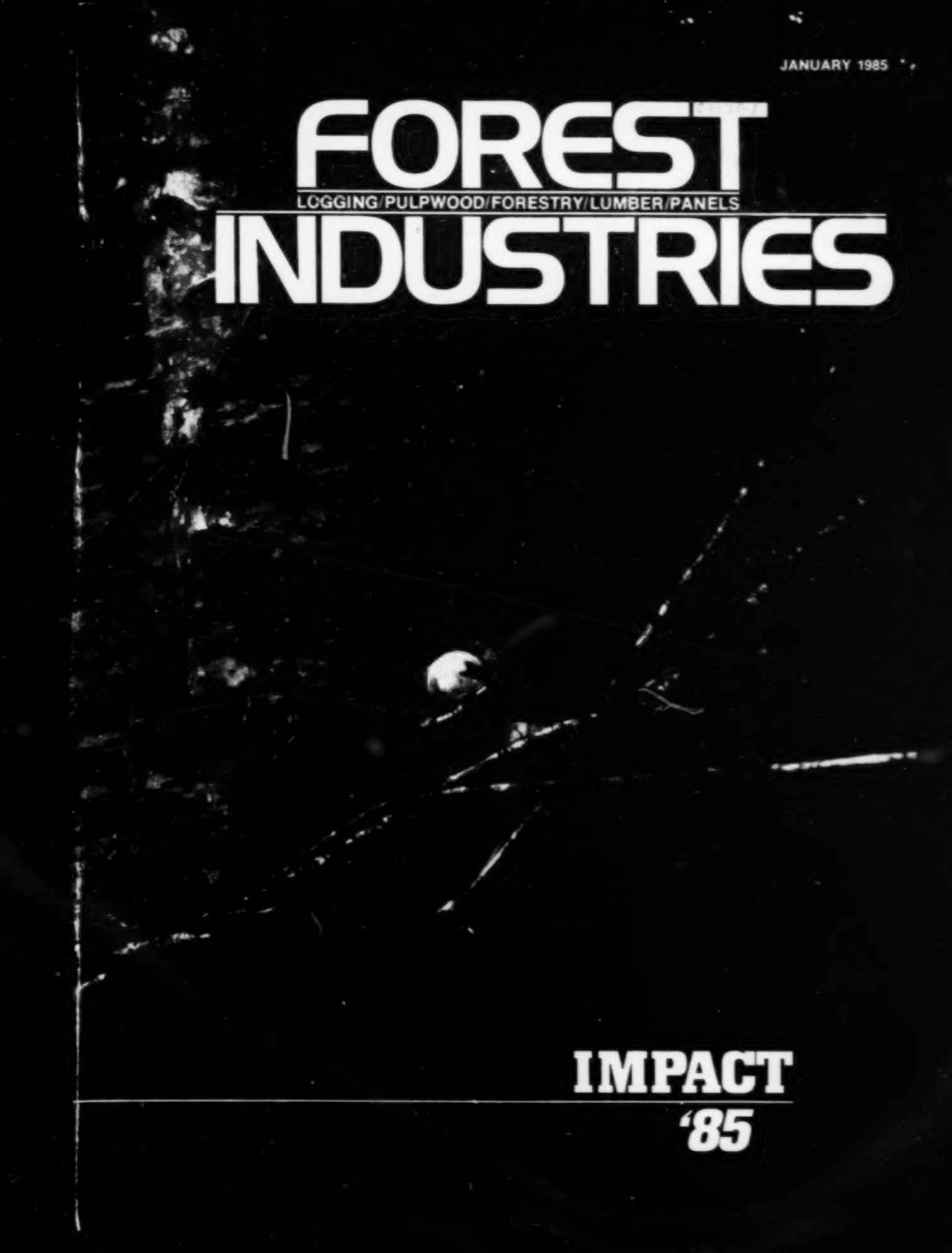

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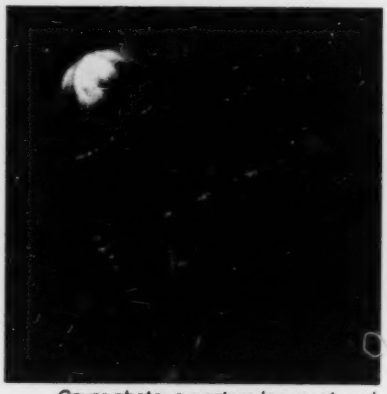

Cover photo: a western logger at work

Spokesmen for major interest groups on both sides of the Canadian lumber import issue state their case as U.S. producers prepare again to defend their turf

Canadian lumber: free market or unfair edge?

Atlanta, Georgia

No examination of issues confronting the forest products industry at the beginning of 1985 would be complete without a review of the Canadian lumber import controversy, which is taking on new momentum.

More softwood lumber production capacity exists in the United States and Canada than the market can absorb, and the climate of depressed prices and subdued demand has heightened competition for customers in the U.S.

It also has produced repeated claims from quarters south of the border that Canadian mills enjoy an unfair edge in U.S. markets: a stumpage pricing system that gives them lower costs than are available to U.S. producers, coupled with a significant currency exchange advantage.

Figures vary with sources (as can be seen by the accompanying tables), but about one-third of the softwood lumber consumed in the U.S. in 1983 came from Canadian mills, a growing trend. Whether or not that represents free competition is the overt issue in the ongoing controversy. (The covert issue is more related to traditional protectionism: in hard times, who gets first dibs on the local market?)

According to the National Forest Products Assn., which closely monitors U.S. Bureau of the Census figures, U.S. imports of Canadian softwood lumber in 1983 reached 11.7 billion bd ft, a 33.6% share of U.S. consumption. This import volume was valued at US$2.5 billion, 58% of the total value of U.S. wood imports in 1983.

NFPA has asked for an investigation to determine if any U.S. trade regulations are being violated and will hold back from participation in any legal or legislative actions in the meantime.

Other groups, principally those whose members are threatened by closure due to lost markets, are less reticent. More than 50 U.S. industry representatives met Oct. 24 in Dallas, Texas, to examine legislative and administrative options for curtailing Canadian lumber shipments into the U.S. Several companies were represented which did not participate in earlier expensive and futile efforts to obtain a countervailing duty, indicating that the unrest is growing.

Canadian softwood lumber imports compared with U.S. consumption, 1975-1984
(million board feet)

Year	U.S. Prod.	Canadian Imports	Other Imports	Total U.S. Consumption	Canadian % of U.S. consumption
1975	24,569	5,665	45	30,280	18.7%
1976	27,608	7,906	45	35,558	22.1%
1977	29,668	10,344	42	40,054	25.8%
1978	30,382	11,764	77	42,223	27.9%
1979	28,550	11,068	50	39,668	27.9%
1980	23,806	9,514	25	33,345	28.5%
1981	22,086	9,182	23	31,291	29.3%
1982	22,054	9,091	28	31,173	29.2%
1983	27,033	11,947	30	39,010	30.6%
1984*	16,659	7,493	25	24,177	31.0%

(*seven months)

Note: Includes revised southern pine volumes, 1978-1984.

Source: Northwest Independent Forest Manufacturers, citing statistics from Western Wood Products Assn., National Forest Products Assn. and Southern Forest Products Assn.

Observers agree there are three legal avenues open to the anti-import coalition:

- File another countervailing duty petition—unlikely to occur.
- Prove "substantial damage" and seek redress under the 1930 Trade Act, requiring approval by the International Trade Commission and the President.
- Prove production cost differences represent "dumping" of Canadian lumber in the U.S.

Voluntary quotas have been mentioned (not by the Canadians), but any arrangement between producers, however informal, suggesting possible violation of anti-trust laws is being shunned by all parties.

Meanwhile, Rep. Jim Weaver (D-Ore.) declared himself in the game by scheduling a hearing on the subject for Dec. 18 in Portland, Ore.

There's no question. Many U.S. producers are in financial quicksand and are looking for a rope. Their frustration was expressed by M. J. "Gus" Kuehne, executive vice president of Northwest Independent Forest Manufacturers: "If Canadian mills had to pay the same price for logs as mills in the Northwest, we would have maintained our market share over the past decade and a dozen more mills in western Washington would be running today."

To provide a forum for expression of views on this controversy, FOREST INDUSTRIES asked spokesmen for two major interest groups to submit statements expressing their positions on the subject: T. M. Apsey, president and chief executive officer of the Council of Forest Industries of British Columbia, Vancouver, B.C., and John C. Milliner Jr., executive vice president of Southeastern Lumber Manufacturers Assn., Forest Park, Ga.

The accompanying tables were not furnished by the two authors but came from our own accumulated reference on the subject.—*Ed.*

Stumpage formulas: Different, yes. Subsidy, no.

Vancouver, British Columbia

A YEAR AND A half ago, the International Trade Administration (ITA) in Washington, D.C., denied the petition of a group of American lumber producers for a countervailing duty on Canadian lumber. The decision did not, however, quell the controversy over Canadian lumber imports. And depressed prices have done much to breathe new life into the issue.

The main allegation of the U.S. producers who launched the countervailing duty petition—and of those who continue to seek restrictions on the importation of Canadian lumber into the U.S.—is that Canadian governments effectively subsidize Canadian industry through low stumpage rates. They argue that Canadian lumber thereby enjoys an unfair advantage in the U.S. market.

It just isn't so.

Although similar in some respects, stumpage systems across Canada and the U.S. vary. In British Columbia, for example, the formula is designed to respond to market conditions by linking stumpage charges to the current market value of end products. Hence rates are adjusted upward in good markets and downward in bad markets.

In contrast, the stumpage system in place on most of the public forest land in the U.S. sets the value of stumpage on federal and state timber by means of a speculative bidding process which fixes stumpage rates for a period of three to five years. During the buoyant market of the late 1970s, when economists were mistakenly predicting a house-building boom well into the '80s, U.S. forest companies bid timber values up to excessively high levels.

When spiraling interest rates caused the market to collapse, many U.S. companies were left holding expensive timber contracts. Some defaulted and Congress passed legislation in 1984 which enabled remaining companies to buy their way out of extended contracts at reduced levels.

Filet mignon vs. hamburger

Comparing stumpage rates bid in the U.S. during the heady days of late 1979 and 1980 with current Canadian stumpage charges is like comparing filet mignon and hamburger. The industry on both sides of the border has been through the grinder in recent years. The U.S. rates bid in 1979 reflected the then-held expectation that lumber prices were going nowhere but up. Current Canadian rates reflect the reality that they have gone nowhere but down.

Much of the debate which has arisen over Canadian stumpage rates also overlooks the fact that stumpage is only one element of many that make up the total cost structure in both industries. All taxes, royalties and other charges applicable in each system have to be examined before passing judgement on the reasonableness or fairness of one aspect.

Such an evaluation did take place, in exhaustive detail, during the quasi-judicial investigations which followed the filing of the countervailing duty petition in 1982.

Differences between Canadian and American stumpage systems, tenure systems, rate of cut control, comparative industrial tax burdens, species composition and the many other factors that make up the total cost picture on either side of the 49th parallel were painstakingly documented and verified by the International Trade Administration of the U.S. Department of Commerce during a seven-month investigation.

The findings of that investigation are a matter of public record, available through the U.S. Department of Commerce in Washington, D.C. To make a long story short, allegations that Canadian stumpage systems represent an unfair subsidy did not stand up to independent analysis. In fact, studies by recognized authorities on both sides of the border have repeatedly demonstrated that when adjustments are made for the differences mentioned above, and relevant costs are added up, the Canadian system does not confer an advantage to Canadian producers.

Poor markets revive issue

Canadian producers assumed that the ITA decision would be the final word on the matter. The 1982-83 countervailing duty action was not the first time some American producers had cast a critical eye upon the Canadian share of the U.S. softwood market. A flip through the history books shows that complaints about Canadian lumber usually coincide with the market downturns that recur in the cyclical wood products industry.

But in between those downturns, Canadian lumber hasn't been a sore point at all. In fact, the situation has been quite the reverse. Canadian lumber has been needed to meet a U.S. demand for softwood products that has historically exceeded domestic supply.

There is plenty of suffering to go around. Canadian producers are not sipping champagne while their counterparts go broke. Our two industries face similar problems

Recovery was just beginning in the U.S. when the final determination on the lumber case was rendered. Canadian producers obviously hoped that recovery would reduce tension and restore healthy markets for all concerned.

As it turns out, recovery came in only a half-measure. American housing starts so far this year have rebounded to an average of 1.8 million on a seasonally adjusted basis. Demand did recover. Unfortunately, prices did not.

The problem is, of course, that the North American industry has been producing record volumes of lumber. There are several reasons for this.

Expansion, upgrading and increased productivity in both Canadian and American mills has had a major impact on supply. Consumer preference has been a factor in dictating the Canadian share of existing markets. Some American home builders prefer Canadian species over domestic ones for some applications. They are attracted to specific qualities of the wood including its lightness, strength and workability.

Regulatory restrictions on U.S. producers have also influenced Canadian market share. The Jones Act, for example, effectively puts West Coast American producers using water transportation at a disadvantage in their own market.

But by far the most significant factor encouraging Canadian lumber imports has to be the strength of the U.S. dollar. The high value of the U.S. dollar has

obviously hurt American exporting industries and import-competitive industries such as the domestic forest industry. The diminishing value of the Canadian dollar with respect to the stronger American dollar has clearly conferred an advantage on Canadian producers. But the value of the Canadian dollar is a sword that cuts both ways. It has also meant, for example, that Canadian companies must pay more for the equipment and machinery they import from the U.S.

Moreover, internationally, the Canadian dollar is linked to the American dollar, and while it has diminished in value relative to the U.S. dollar, it has appreciated along with the U.S. dollar with respect to other currencies. Thus while the relationship between our two currencies has been a boost for Canadian lumber producers in the North American market, we have shared in the bust which has occurred in overseas markets.

Unfortunately, in the short term at least, there is not much that either of our industries can do about it. A more favorable alignment of currencies will require a reduction in the deficits of both our nations and further improvement in offshore economies.

What it all adds up to is difficult and divisive times in the North American forest products business. But there is plenty of suffering to go around. Canadian producers are not sipping champagne while their counterparts go broke. Our two industries face similar problems.

Shoot-out would occur

In the midst of all the recent controversy over Canadian lumber it is worthwhile to reflect that Canada and the U.S. probably interact more extensively than any other two countries in the western world. We are each other's most important trading partner, and oldest friend and ally. A trade barrier that would effectively keep Canadian lumber out of the U.S. market would be the largest economic blow ever dealt to Canada by the U.S. It would in all likelihood ignite a bitter and escalating round of retaliation and counter-measures. The effect of such a protectionist shoot-out would be highly damaging for both economies.

Neither country can afford to lose sight of the fact that much of the prosperity we both enjoy today came from free trade. To begin raising barriers now would be to join a game nobody ever truly wins.

If the recent recession taught us anything, it is that competitiveness is the key to domestic and international success in our industry. If it is to survive, the North American wood products industry must be world-class, not just the best in this state or that province.

Competing with each other can sometimes be painful, but it ultimately brings out the best in both of us. In so doing, it ensures the future viability and vitality of our industry and the many jobs that depend on it. ■

—T. M. Apsey

U.S. imports of softwood lumber, by species and country of origin, 1978-1983
(million board feet)

	1978	1979	1980	1981	1982	1983
Spruce	6312	6740	6166	6011	6341	8354
Canada	6311	6735	6165	6009	6340	8353
Other countries	1	5	3	2	1	1
Douglas fir	976	827	559	483	504	600
Canada	975	827	559	483	504	600
Other countries	1	0	0	0	0	0
Other fir	609	588	441	535	461	709
Canada	609	588	441	535	461	709
Other countries	0	0	0	0	0	0
Cedar	656	648	552	574	539	664
Canada	657	644	549	573	539	663
Other countries	1	4	3	1	0	1
Hemlock	1220	912	628	467	294	417
Canada	1219	912	625	467	294	416
Other countries	1	0	3	0	0	1
Eastern white & red pine	110	101	108	216	244	287
Canada	108	100	107	214	239	281
Other countries	2	1	1	2	5	6
Other pine	1800	1073	913	724	555	631
Canada	1752	1043	900	714	550	617
Other countries	48	30	13	10	5	14
Other species, all ctrys	49	33	14	19	31	75
Total softwood lumber	11834	10922	9383	9029	8969	11737
Canada	11572	10873	9359	9008	8943	11706
Mexico	3	2	2	1	1	12
Honduras	42	24	11	10	8	8
New Zealand	2	2	2	1	3	3
Other countries	15	21	9	9	14	6

Source: U.S. Bureau of the Census, via National Forest Products Assn.

Canadian share of U.S. softwood lumber markets, eastern states, 1982

Alabama	15.74%
Arkansas	7.24%
Connecticut	68.55%
Delaware	85.09%
District of Columbia	34.05%
Florida	62.61%
Georgia	61.25%
Illinois	42.54%
Indiana	50.47%
Iowa	31.33%
Kansas	52.73%
Kentucky	48.96%
Louisiana	6.07%
Maine	89.08%
Maryland	68.61%
Massachusetts	73.85%
Michigan	57.95%
Minnesota	57.91%
Mississippi	12.30%
Missouri	40.02%
New Hampshire	90.48%
New Jersey	64.84%
New York	60.88%
North Carolina	47.05%
Ohio	53.85%
Oklahoma	13.75%
Pennsylvania	63.97%
Rhode Island	85.12%
South Carolina	41.91%
Tennessee	39.16%
Texas	25.84%
Vermont	87.80%
Virginia	37.43%
West Virginia	81.89%
Wisconsin	36.28%

Source: Southern Forest Products Assn.